

Generalists and Specialists

When you are looking for investment advice, you must first determine what type of advice you need and how valuable it is relative to the fee you may be charged. You will also have to decide between working with an investment generalist or investment specialist. To understand this concept better, think of the analogy of the medical field. We all may be familiar with the healthcare process as we have likely experienced health related issues at some point in our lives. For example, let's say you have chest pains. You research "chest pains" on the internet and find a myriad of possible causes such as heart, lung, gastrointestinal problems as well as potentially bone, muscle or nerve problems. Other causes of chest pain may include anxiety or panic attacks. When in doubt, it is wise to call your family practice doctor (generalist) to diagnose your symptoms and refer you to a specialist. It does not make sense to diagnose yourself and call a heart surgeon to perform a quadruple bypass operation when you may actually have a lung issue. First you call your family practice doctor, then you visit a specialist only if you receive a referral. The investment profession is similar to the medical profession in the use of generalists and specialists.

Investment specialists include brokers who recommend individual securities and the professional investment managers who select individual securities for your portfolio. An example of a specialist is the traditional stockbroker who recommends securities that have the potential for capital appreciation. Specialists also include professional investment managers who specialize in a specific asset class or sector of the market. Investment managers would include mutual funds, index funds, exchange-traded funds and separately managed accounts.

Why Hire Investment Generalists?

Investment generalists act like family practitioners in the medical field. They focus on high-level policy issues to help you achieve your financial goals. They provide a comprehensive assessment of your financial position, investment policy formulation, asset allocation strategy, risk management, investment manager search and selection, socially responsible investing (SRI), investment performance monitoring, reporting and evaluation and periodic portfolio rebalancing. This consultative approach is often called investment management consulting. Three reasons to hire an investment management consultant are:

1. To provide expertise and/or understanding that you do not have
2. To provide guidance and help with difficult investment decisions
3. To provide third party endorsement of your investment decisions and actions



It is critical to understand that if you choose to work directly with an investment manager (specialist), without the guidance of an independent investment management consultant (generalist), you may expose yourself to potentially avoidable risks. For example, you might limit yourself to using only the asset classes that are available to this particular investment manager, excluding many other important asset classes. You may also be dependent on the benchmark that the investment manager recommends, which is a little like asking professional Major League baseball players to call the balls and the strikes when they are at bat. Investment managers may not be able to objectively analyze their own investment performance.

There are two levels of fees in the institutional investment management consulting model. One advisory fee for the investment management consultant to help you with high-level policy decisions and another fee for the investment managers who select the securities for the portfolio. We believe there is value in hiring an investment management consultant (generalist) to select and monitor your investment managers (specialists).

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